

Accepted Manuscript

Flight-to-Liquidity, Market Uncertainty, and the Actions of Mutual Fund Investors

Azi Ben-Rephael

PII: S1042-9573(17)30035-9
DOI: [10.1016/j.jfi.2017.05.002](https://doi.org/10.1016/j.jfi.2017.05.002)
Reference: YJFIN 750



To appear in: *Journal of Financial Intermediation*

Received date: 20 June 2016
Revised date: 28 November 2016
Accepted date: 16 May 2017

Please cite this article as: Azi Ben-Rephael , Flight-to-Liquidity, Market Uncertainty, and the Actions of Mutual Fund Investors, *Journal of Financial Intermediation* (2017), doi: [10.1016/j.jfi.2017.05.002](https://doi.org/10.1016/j.jfi.2017.05.002)

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

Flight-to-Liquidity, Market Uncertainty, and the Actions of Mutual Fund Investors

By

Azi Ben-Rephael*

This Version: May 2017

Abstract

We explore the trading decisions of equity mutual funds during ten periods of extreme market uncertainty. We find that mutual funds reduced their aggregate holdings of illiquid stocks. Exploring the drivers behind this result reveals that this is mainly driven by larger withdrawals from funds that hold less liquid stocks. We further find that the sell-off of illiquid stocks occurred only after initial deterioration in market conditions, consistent with retail investors' response to bad performance. At a broader level, this shows that mutual funds consumed liquidity during periods where liquidity was most valuable. Moreover, the fact that fund managers traded in response to these withdrawals suggests a potentially magnifying channel for the drop in illiquid stock prices, also known as flight-to-liquidity.

Key words: market uncertainty, financial crises, liquidity, flight-to-liquidity, flow-induced trading, mutual funds, institutional investors, liquidity provision, portfolio liquidation

JEL classification: G01, G11, G12, G14, G20

I thank Yakov Amihud, Doron Avramov, Jacob Boudoukh, Ilan Cooper, Andrew Ellul, Hili Eshcar, Francesco Franzoni (discussant), Itay Goldstein (discussant), Ohad Kadan, Avner Kalay, Saggi Katz, Nisan Langberg, Jacob Oded, Lukasz Pomorski, Dimitri Vayanos, Avi Wohl, seminar participants at Boston College, BI Norwegian School of Management, Copenhagen Business School, University of Georgia, the Hebrew University, Hong Kong University of Science and Technology, IDC Herzliya, Imperial College, Indiana University, University of Rochester, Rotterdam School of Management, Tel Aviv University, University of Wisconsin, and participants at the 4th Paul Woolley Centre Conference at the LSE and the 2013 Academic & Practitioner Conference on Mutual Funds and ETFs for their helpful comments and suggestions. I am grateful to Joel Hasbrouck for granting access to his liquidity measure programs and to Brian Bushee for his institutional investor classification data.

*Indiana University, Kelley School of Business, abenreph@indiana.edu, +1 812-856-4068.

Download English Version:

<https://daneshyari.com/en/article/5100628>

Download Persian Version:

<https://daneshyari.com/article/5100628>

[Daneshyari.com](https://daneshyari.com)